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Major Limitations on Communist China's Industrialization

The decade of the 1950's brought very considerable economic progress in Communist China. By 1960, China seemed to be well along the path of sustained economic growth. The decade of the 1960's has been, and will continue to be, a far different story. The growth momentum of the 1950's has been lost; it is uncertain that China can regain it any time soon. I would like to highlight the major reasons for this turn-about in economic fortunes, as well as the key limitations on China's ability to become one of the world's economic powers.

1. The most serious restraint on economic growth is the inadequate agricultural base.

a. Historical experience has shown that, if a backward country wants to industrialize, its agriculture must be able to take care of the expanding food needs of its own population and provide substantial exports to pay for imports of essential machinery and equipment. In the 1950's China was able to do this; in the 1960's it has not.

b. Rundown of Board no. 1 to bring out inadequacy of the agricultural resource base. While China is a large country, only a small fraction of the land area can be cultivated. Because of the huge population, the cultivated area per person is exceedingly small. Comparisons with the US.

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c. With little land which could be added to cultivation, expansion of agricultural production must be by intensive methods. This is possible as experience in Japan and Taiwan shows, but ~~it is~~ <sup>it</sup> is an expensive proposition. China is far from doing enough so its agricultural problem will continue to be critical.

2. These major deficiencies in agriculture, which limit new investment severely, together with a great scarcity of trained manpower, and the concentration of the cream of its limited industrial resources on military output, comprise the principal reasons for the current stagnation in most of industry.

a. Poor harvests in 1959-61 and the withdrawal of Soviet technicians in mid-1960 largely explain the sharp drop in industrial production in 1961-62 (see Board no. 2). Harvests have improved from the extreme lows, but still are only about the level of 1957, with over 100 million more people to feed. China continues to suffer from the loss of highly-trained industrial technicians provided by the USSR up to 1960.

b. There has been slow recovery in industry since 1962, with much of the increase in production resulting from fuller operation of existing plants. Production in heavy industry is still well below peak levels. The few new industrial facilities are predominantly military or military supporting plants, petroleum facilities (in order to end China's dependence on imports, especially from the USSR),

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and chemical plants (only in part to help agriculture, support of military programs carry a higher priority). China's military program is siphoning away from civilian economic development much scarce capital and many highly-skilled scientists and technicians.

c. Hence, China's hopes of building the well-rounded industrial base necessary for balanced growth have been indefinitely postponed. ~~In~~<sup>In</sup> comparison with India, for example, China's industrial performance over the 1960's has been unimpressive.

d. Needless to say, the Chinese consumer comes out very poorly; light industrial production is not even back to the level of 1957.

3. These problems in agriculture and industry are reflected in China's foreign trade, as is the political estrangement from the USSR.

a. Board no. 3 shows the major reorientation of China's foreign trade from the Communist countries to the Free World. This shift has taken place largely because of failures in agriculture -- requiring large imports of grain which can be obtained only in the Free World to sustain a minimum diet -- and because of the Sino-Soviet dispute, which created an urgent wish on China's part to eliminate its dependence on the USSR.

b. The shifts in commodity flows since 1959 dramatically illustrate the sharp decline in agriculture's contribution to China's industrialization. In

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1959, China was earning \$820 million from the sale of food abroad; in 1964, China was paying out \$200 million more for imports of food than it was earning on food exports. This shift of about \$1 billion a year in export earnings has meant not only a lower volume of over-all trade, but an 80 percent cut in imports of machinery in 1964 compared to 1959.

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